AUDI ALTERAM PARTEM

OFFICE OF THE PROVINCIAL AUDITOR
BUREAU DU VÉRIFICATEUR PROVINCIAL

Report on the Special Audit of

THE WORKPLACE HEALTH AND SAFETY AGENCY

December 6, 1995

Office of the
Provincial Auditor
of Ontario

AUDI ALTERAM PARTEM

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 974-9866 Fax: (416) 327-9862

December 6, 1995

The Honourable Elizabeth Witmer
Minister of Labour
14th Floor, 400 University Avenue
Toronto, Ontario
M7A 1T7

Dear Ms. Witmer:

I am pleased to transmit my report on a special audit, requested by you pursuant to Section 17 of the *Audit Act*, of the Workplace Health and Safety Agency.

Erik Peters

Erik Peters, FCA
Provincial Auditor

Report on the Special Audit of

THE WORKPLACE HEALTH AND SAFETY AGENCY

December 6, 1995

Office of the Provincial Auditor of Ontario

TABLE OF CONTENTS

DETAILED AUDIT REPORT

SUMMARY

INTRODUCTION

The Workplace Health and Safety Agency (the Agency) was established on August 15, 1990 through amendments to Ontario's *Occupational Health and Safety Act* (Bill 208). It was set up as a bipartite organization with representation from management and labour to carry out a range of functions in the area of workplace health and safety.

On August 23, 1995, an Order in Council was issued to revoke appointments to the board of directors, and the government announced its intention to disband the Agency and merge its operations with those of the Workers' Compensation Board. An interim executive director was appointed to oversee Agency operations during this period.

On September 7, 1995, under section 17 of the *Audit Act*, our Office was requested by the Minister of Labour to conduct a comprehensive financial audit of the Agency. Our audit objective was to advise the Minister as to the adequacy of the internal management practices and controls of the Agency, especially as they related to expenditure management, financial priorities, control systems and human resources practices.

We concluded that management systems, controls and practices were weak; there was a lack of due regard for economy and efficiency in the acquisition and management of resources. Adequate procedures were not in place to measure and report on the effectiveness of the Agency in meeting its objectives.

The following is a summary of our findings.

AGENCY ACCOUNTABILITY

The Agency is accountable to the Legislative Assembly through the Minister of Labour. Accountability mechanisms between the then Minister and the Agency were originally set out in a Memorandum of Understanding signed in June 1992. This accountability did not function as intended. For example, the Minister did not receive adequate information on the Agency's operations to assess whether the Agency was fulfilling its statutory mandate in an efficient and effective manner.

FUNDING OF HEALTH AND SAFETY DELIVERY ORGANIZATIONS

ALLOCATION OF FUNDS

In 1994, the Agency provided $47 million in funding to eight organizations which deliver occupational health and safety services.

The Agency did not have criteria for the equitable allocation of funds to the delivery organizations, and funding did not reflect the need for health and safety services in various sectors. Funding changes were made without documented needs assessments.

Recommendation:
Funds should be allocated equitably to health and safety program delivery organizations based on the need for health and safety services.

RESTRUCTURING OF DELIVERY ORGANIZATIONS

The Agency implemented a number of mergers among the delivery organizations. These mergers were expected to save $2.2 million per year which could be redirected to improve service delivery. However, neither the Agency nor the delivery organizations measured the benefit of the mergers.

We believe that opportunities still exist for savings through consolidations in administrative areas.

Recommendation:

Steps should be taken to:

- **monitor savings from the restructuring of delivery organizations and determine why the expected savings have not been achieved;**
- **investigate opportunities for better co-ordination or consolidation in administrative areas; and**
- **monitor the improvements in services.**

SURPLUS RECOVERY

In 1993, the Agency adopted a policy requiring it to recover 80% of any surpluses realized by delivery organizations. We found that the Agency did not recover surplus funds as required by its policy. As at December 31, 1994, five organizations had accumulated a combined surplus of $1.7 million since the effective date of the policy. None of this was recovered by the Agency.

Recommendation:

Steps should be taken to:

- **recover 80% of any surplus funds generated by delivery organizations; and**
- **monitor and adjust appropriately delivery organizations' future funding levels.**

MEASURING AND REPORTING ON EFFECTIVENESS

We found that:

- the procedures to measure and report on the Agency's effectiveness in meeting its objectives were inadequate,
- there were inadequate accountability mechanisms for service performance by the delivery organizations; and
- an accreditation system for employers had not been developed.

Recommendation:
Formal accountability mechanisms should be established and a process for measuring and reporting the effectiveness of delivery organizations programs should be implemented. Organizations should be required to submit good quality information on measurable result expectations and achievements.

CERTIFICATION TRAINING PROGRAMS

In accordance with the *Occupational Health and Safety Act*, most workplaces with 20 or more regularly employed workers are required to have joint health and safety committees to address health and safety concerns. Since its inception in 1990, the Agency had concentrated its attention on developing requirements for certification of joint health and safety committee members and establishing and administering the certification process.

CORE CERTIFICATION TRAINING

For the period from the training program's launch in April 1993 to October 1995, we estimated the total cost to employers, including program costs and trainees' wages, to be approximately $83 million.

The Agency estimated that about 60,000 workers and managers would require the training. As of October 1995, 30,775 participants had completed the core training requirement. Compliance with the certification training requirements in certain sectors and smaller workplaces was low.

The cost to employers of core certification training averaged approximately $2,700 per person.

The agency had not adequately assessed what effect certification had on reducing injuries and accidents due to the brief history of the program. In addition, any impact on reductions in injuries and accidents could not be attributed solely to the certification program as health and safety services were also provided by the delivery organizations.

Accordingly, we also could not assess the cost effectiveness of the core certification program.

Recommendation:
Ways to improve the compliance of smaller firms required to take core certification training should be investigated; and the effectiveness of the certification program should be evaluated in conjunction with other programs offered by the delivery organizations.

SECTOR-SPECIFIC CERTIFICATION TRAINING

From 1993 to September 1995, about $9 million was spent on the development of the program. The process experienced serious delays due, to a certain extent, to the inability of the Agency's senior bipartite management to reach consensus on several key issues, including duration of training, delivery methods and program pricing. As of October 1995, Sector Specific Certification Training was ready for testing only in the construction sector. For the remaining 19 sectors, training modules had not been completed for implementation in 120 potential sub-sectors. These sub-sectors were in various stages of development.

In November 1995, the Agency discontinued funding to this program except for the construction sector.

EXPENDITURE MANAGEMENT

From the Agency's inception in 1990 to September 1995, expenditures incurred for the acquisition of goods and services totalled approximately $22 million. The Agency did not plan adequately in acquiring goods and services. We identified instances where there were inadequate needs assessments or cost analyses and where competitive purchasing policies were not followed. For example:

- Management Consultant
  - requests for proposals were not obtained for a series of studies totalling $817,000 in professional fees; and
  - operating costs, which were to be billed at cost by the consultant, were significantly higher than those charged by companies offering data entry, word processing and computer services;
- Advertising Campaign
  - in April 1995, the Agency approved commencement of an advertising campaign aimed at increasing the awareness of workplace health and safety among young people. We noted that advertis-

ing and creative communications services exceeding $500,000 were not acquired through the Advertising Review Board as required by Management Board of Cabinet Directives.

- Additionally, at the time of the campaign, Management Board of Cabinet had in effect a freeze on the purchase and placement of all advertising. We noted that the Agency had not followed this instruction.

- Communications Consultant
  - services totalling $55,000 were obtained; although the consultant was a former public servant measures were not taken to ensure there was no conflict of interest;
- Warehouse and Printing Facilities
  - approximately $2.2 million was spent to operate a warehouse and printing facility and $990,000 on outsourced printing. The arrangements were entered into without comprehensive analysis of warehousing and printing requirements and the related costs;
- Office Lease
  - approximately $750,000 was being paid per year for 37,000 square feet of office space, but space requirements had not been analyzed prior to entering into the lease; and
  - the Agency's leased office space was approximately 16,000 square feet greater than considered necessary under the Ontario Realty Corporation's guideline.
- Leasehold Improvements
  - since 1993 the Agency has spent approximately $1.4 million on renovations.

    The bulk of the renovations were carried out through the services of a design firm and contractor. We noted that the Agency did not acquire the design firm's services on a competitive basis. The work of the contractor was tendered on several occasions; however, the price on one of the contracts increased by 40% ($150,000) as a result of change orders.
- Expense Claims
  - we noted that over the last three years approximately 680 claims for meals costing about $50,000 were claimed by senior management. These claims often did not include reasons why the meals should have been paid for by the Agency.

Recommendation:

Operating costs paid to the consulting firm should be further investigated and, where possible, any overbillings recovered.

HUMAN RESOURCES

RECRUITMENT, PAY ADMINISTRATION AND PERFORMANCE MANAGEMENT

The number of Agency staff increased from 13 at the Agency's inception to approximately 80 in September, 1995. We noted that:

- open competitive recruitment practices were not followed, and there had been instances of management override in the recruitment process;
- salary ranges for the Agency's employees were within the ranges established by the Ministry of Labour and the Worker's Compensation Board; and
- the Agency did not have a performance management system. There was no documentation to support decisions on how promotions were made. Salary increases on promotion ranged from 16 to 55%.

SEVERANCE AND EXIT BENEFITS

In August 1995, severance packages were prepared for senior management and non-bargaining unit employees. Senior management were to receive between 12 and 18 months' salary. Non-bargaining employees were to receive between 18 and 26 weeks' salary. The total cost to the Agency for these packages would be approximately $1.1 million in excess of the amount allowed under the original Agency policies. The Agency's interim executive director has since rescinded or is in the process of rescinding these severance packages. If the Agency had followed the Ontario Public Sector severance policy the senior management group who would have been entitled to only the minimum six months.

A new severance agreement was also signed with bargaining unit employees under which they were to receive 12 to 25 weeks severance pay depending on length of service. The cost to the Agency would be approximately $1.2 million in excess of the amounts allowed under the original collective agreement. This severance agreement has not been rescinded.

THE SOCIAL CONTRACT ACT

The Agency has achieved expenditure reduction targets imposed by the *Social Contract Act*.

Under the terms of the collective agreement, bargaining unit employees are entitled to a 2% increase effective January 1, 1996. We noted that this increase, if given, would be in violation of the *Social Contract Act*. The Agency has subsequently informed the union that the increases would not be implemented.

Some employees and senior management received increases of up to $7,000 and $10,000, respectively, from re-classifications. We found inadequate justifications for these re-classifications.

AGENCY DATA SYSTEM PROJECT

The Agency initiated a data system project in 1992 to address the information needs of the Agency and the delivery organizations.

Installation of the system was scheduled to be completed at all delivery organizations by January 1994. At the time of our audit, the Agency had spent over $1.6 million on the project without meeting the information needs of the larger users.

Recommendation:

When the Agency's operations are transferred to the WCB the information needs of the delivery organizations should be determined and the most efficient solutions for meeting those needs developed.

CONTROL SYSTEMS

We examined control systems for the following business cycles:

- revenue, receivables and receipts;
- purchases, payables and payments;
- payroll;
- capital assets; and
- inventory.

We concluded that financial controls were functioning as intended except in certain areas where segregation of duties could be improved.

Recommendation:

Weaknesses in segregation of duties needs to be overcome when the Agency's operations are merged into the WCB.

POTENTIAL SAVINGS

Potential savings were noted as follows:

Section	Potential Savings and Amount, If Applicable	Page Reference
Funding	Allocation of funds to delivery organizations based on needs.	14
Funding	Streamlining of administrative functions in the system.	15
Funding	Recover surpluses in the amount of $1.7 million	16
Certification	Pending the government's decision on the continuation of sector-specific training, better planning and control over progress and costs of the project should be put in place.	22
Expenditure Management	Investigate and where possible recover any overbillings by the Management consultant.	23
Expenditure Management	Investigate alternative uses for the warehouse and printing facilities.	26
Expenditure Management	Investigate options for sub-leasing office premises.	27
Human Resources	Although savings may exist in this area they are indeterminable due to the uncertainty surrounding the Agency's role and structure when merged into the WCB.	28

DETAILED AUDIT REPORT

BACKGROUND

The Workplace Health and Safety Agency was established on August 15, 1990 through amendments to Ontario's *Occupational Health and Safety Act* (Bill 208). The Agency was created as a bipartite organization with representation from management and labour to carry out a range of activities related to workplace health and safety. It is funded by the Workers' Compensation Board through employer assessments. Its 1995 budget was approximately $72 million.

The Agency's mandate includes:

- funding and overseeing organizations which deliver health and safety programs to workers and employers;
- developing requirements for and administering the certification of members of joint health and safety committees, required for most workplaces with 20 or more employees;
- developing requirements for and administering the accreditation of employers who operate successful health and safety programs.

The Agency reports to the Legislature through the Minister of Labour. At the time of its establishment in 1990, the Agency was made up of a chair, two vice-chairs, an executive director plus a 16-member board with equal representation from labour and management. A Memorandum of Understanding which sets out the accountability mechanisms between the then Minister of Labour and the Agency was signed in June, 1992.

The amended legislation required the Minister of Labour to review the Workplace Health and Safety Agency by January 1994. The review, which addressed the mandate of the Agency and the administration of its programs, was completed in February 1995. It identified problems and made recommendations related to the organizational structure and operations of the Agency.

On August 23, 1995, an Order in Council was issued dissolving the Agency's board of directors. An interim executive director was appointed to oversee the operations of the Agency and a new Memorandum of Understanding was signed on August 31.

At the same time, the government announced its intention to disband the Agency and merge its operations with those of the Workers' Compensation Board.

Additionally, on September 11, 1995, a review panel was formed to:

- review the delivery of health and safety programs and the structure of health and safety program delivery organizations;
- review certification training requirements and recommend changes to the certification program;
- review the structure and function of the Workplace Health and Safety Agency and recommend how to transfer its activities to the Workers' Compensation Board (WCB) and other organizations as appropriate as well as determine the financial implications to the WCB of such a transfer;
- identify the savings to the WCB from disbanding the Agency; and
- make recommendations to the Minister on the roles and accountabilities of the Health and Safety Delivery Organizations, the Ministry, WCB, employers and workers to ensure the efficient and effective use of resources to improve workplace health and safety, taking into account the administration of workplace health and safety in other jurisdictions.

The review panel is expected to issue its report in December 1995.

OBJECTIVE AND SCOPE

At the request of the Minister of Labour on September 7, 1995, our Office agreed to conduct a comprehensive financial audit of the Agency under section 17 of the *Audit Act*. Our audit objective was to advise the Minister as to the adequacy of the internal management practices and controls of the Agency especially as they related to expenditure management, financial priorities, control systems and human resources practices.

The following areas were included in the scope of the audit:

- accountability mechanisms and practices, including those related to the funding of health and safety delivery organizations;
- the extent to which procedures were in place to measure and report on the effectiveness of the Agency in meeting its objectives.
- cost effectiveness of the core certification program;
- expenditure management processes in place, and the planning practices of the Agency;
- current human resources planning and management practices, including staffing and recruitment, benefits, performance management and monitoring, and pay administration;
- specific control systems in place, their intended goals, and whether or not they were functioning as planned;

- any irregularities or weaknesses noted in relation to the Agency's financial management and administration;
- potential savings in any areas of the Agency and, where possible, the expected impact of those savings;
- a five-year summary of the financial (Appendix A) and human resources (Appendix C) activities of the Agency including trends of revenues and expenditures, staffing levels and changes to accounting methods (Appendix B);
- historical financial priorities of the Agency and any variances between planned and actual expenditures (Appendix B).

Our audit included an examination of Agency records and discussions with Agency and delivery organizations staff. Some decisions were made by senior officials who are no longer employed by the Agency. We offered these officials the opportunity to discuss the matters that occurred during their employment. However, some of them declined or did not respond to our invitation. Accordingly, these officials may have information which was not made available to us during the audit.

OBSERVATIONS

AGENCY ACCOUNTABILITY

Accountability mechanisms between the Minister of Labour and the Agency were originally set out in a Memorandum of Understanding signed in June 1992. The Agency's board of directors was accountable to the Legislative Assembly through the Minister.

The then Minister acknowledged in the Memorandum that the Agency should have the highest degree of administrative and operational autonomy. However, the Agency was required to, among other things,

- submit annual budgets;
- discuss with the Minister its intent to vary significantly from its approved budget;
- provide an annual report and audited financial statements to the Minister for purposes of public accountability; and
- adhere to the general principles reflected in Management Board of Cabinet's Guidelines and Directives.

We noted that the budgets submitted to the then Minister were highly summarized, with minimal supporting explanation. Furthermore, to support its funding requests for 1994 and 1995, the Agency compared the requested amounts with the previous year's budget, but did not provide

any information on actual revenue and expenditures. As a result, the Ministry could not assess the validity or reasonableness of the funding requests.

The 1992 Memorandum of Understanding required the Agency to discuss with the Minister budget variances greater than 10% for any line item. We noted instances where the Agency deviated significantly more than 10%, from its budgets, but found no evidence that discussions on these variances were ever held. Requests for financial and operational information made to the Agency by the Ministry were sometimes rejected.

The Agency submitted annual reports and audited financial statements to the Minister. The annual reports outlined the activities of the Agency for the previous year. However, the descriptions were often general, and quantitative data were limited.

We found instances where the Agency had failed to conduct itself with due regard for the general principles reflected in the Management Board of Cabinet's Directives and Guidelines. Specific observations are described throughout our report. While the Agency is entitled to administrative and operational independence, it is nevertheless accountable for the way it manages public funds.

FUNDING OF HEALTH AND SAFETY DELIVERY ORGANIZATIONS

In 1994, the Agency transferred $47 million to eight health and safety program delivery organizations (delivery organizations). Six are sector specific organizations that promote the prevention of accidents and occupational illnesses in their respective industry sectors through consultation, workplace inspections and training courses. One organization is cross-sectorial; it offers health and safety training to all workers in Ontario. The eighth organization is a network of occupational health clinics that provide diagnostic services for occupational illness and injury.

Financial Monitoring

The Agency monitored the delivery organizations' finances through annual budgets, monthly or quarterly financial reports and audited financial statements.

We reviewed the budget submissions from the eight organizations for 1995. The budgets were submitted and reviewed on a timely basis. How-

ever, we noted that five organizations had not provided detailed information on expected results for the year.

In the monthly or quarterly financial reports, variances in excess of 5% from the budgets must be explained. We found that the delivery organizations generally submitted their financial reports on a timely basis and that the Agency analyzed these reports and the variances in detail.

Allocation of Funds

The Agency did not have criteria for the equitable allocation of funds among delivery organizations. Funding changes were made without documented needs assessments.

For example, the funding of one delivery organization was increased from $4.7 million in 1991 to $9.5 million in 1995. We reviewed this organization's budget submissions, noting that they had not provided a detailed needs analysis or justification for the funding increase. The Agency's decision to increase funding was mainly based on a 1991 consultant's study of Agency-funded delivery organizations, which recommended that additional resources be allocated to facilitate the organization's representation on Agency committees. The study also found the organization's 'train the trainer' approach was more cost effective than other methods of program delivery. Two other delivery organizations also relied on the 'train the trainer' approach, but their funding was reduced by 18% and 10% respectively over the same period.

We compared the 1994 funding for the six sector-specific delivery organizations:

Delivery Organizations	Funding ($Millions)	No. of Employees Served	No. of Time-Lost Injuries	Funding $/Injury
1	9.3	141,000	6,045	1,538
2	15.9	1,980,000	71,100	224
3	.5	53,000	1,916	240
4	2.2	26,000	548	4,015
5	4.8	68,000	2,180	2,201
6	1.7	133,000	9,185	185

The funding was not based on the identified need for health and safety services in individual sectors.

Recommendation:

Funds should be allocated equitably to health and safety program delivery organizations based on the need for health and safety services.

Restructuring Delivery Organizations

The 1991 study on Agency-funded delivery organizations found significant duplications and inefficiencies in the administration and programming of the organizations. The study recommended that the Agency centralize certain administrative services and co-ordinate program delivery.

Subsequently, the Agency implemented a number of mergers among the delivery organizations. These mergers were achieved either through negotiations or by the Agency ceasing to fund the delivery organizations if negotiations were unsuccessful. By the end of 1994, the number of delivery organizations was reduced from thirteen to eight.

The Agency expected the delivery organizations to save $2.2 million per year as a result of these mergers. These savings were to be redirected by the delivery organizations into service delivery. However, neither the Agency nor the delivery organizations:

- monitored or reported the savings. Based on information received from the delivery organizations, we estimated the savings from the mergers to be about $1 million per year,
- monitored the measures taken to improve services. Based on discussions with the delivery organizations and a review of their budget submissions to the Agency, we found some service improvements in one merger, while others had no change or experienced a fragmentation of services.

We believe that opportunities still exist for savings through consolidations in administrative areas. Six of the delivery organizations we contacted believed that savings and efficiencies could be realized in further streamlining such functions as warehousing, printing, mailing, procurement, audio-visual production, accommodation and payroll administration. Combining these functions does not necessarily require formal mergers.

Recommendation:

Steps should be taken to:

- **monitor savings from the restructuring of delivery organizations and determine why the expected savings have not been achieved;**
- **investigate opportunities for better co-ordination or consolidation in administrative areas; and**
- **monitor the improvements in services.**

Surplus Recovery

The Agency adopted a policy in December 1993 which required any surpluses realized by a delivery organization to be recovered. Delivery organizations were to receive 20% of any surplus they generated; the remaining 80% was to be allocated to the Agency's general fund and used to maximize the satisfaction of needs across the system. We found that the Agency had not recovered surplus funds as required by its policy.

As at December 31, 1994, five organizations had accumulated a combined surplus of $4.1 million, of which $1.7 million pertained to the period after the policy was in place.

For example, one organization had a surplus every year as follows:

1992:	$614,381
1993:	$680,462
1994:	$475,913

Despite its surpluses, the organization's budget had been steadily increased from an annual base of $3.3 million in 1992 to about $4.1 million in 1995. Its 1995 budget requested four new ergonomists at an annual cost of about $240,000. This request was approved even though a substantial surplus existed and no other significant changes were planned.

As at December 31, 1994, the organization had $2.3 million in cash, $920,000 of which was reserved for future expansions although such expansions had not been approved by the Agency.

Recommendation:

Steps should be taken to:

- **recover 80% of any surplus funds generated by delivery organizations; and**
- **monitor and adjust appropriately delivery organizations' future funding levels.**

MEASURING AND REPORTING ON EFFECTIVENESS

In addition to funding the delivery organizations the Agency has three primary objectives pursuant to the occupational health and safety legislation:

- overseeing the operations of funded delivery organizations;
- developing requirements for and administering certification training;
- developing requirements for and administering the accreditation of employers.

We reviewed the Agency's procedures in place to measure and report on its effectiveness in meeting these objectives. The effectiveness of certification training is discussed under the section on certification training programs.

With respect to the accreditation of employers, the Agency released a consultation paper in January 1995. As of November 1995, the Agency had held public hearings in six cities and received over 100 submissions from interested parties. The project has been put on hold. In this section, we dealt with the Agency's procedures in place to oversee the operations of delivery organizations.

To fulfil its responsibilities for overseeing the operations of the delivery organizations, it is important that the Agency had an accountability framework to monitor the delivery organizations finances and service delivery.

There were no formal accountability mechanisms with respect to service delivery. Accordingly the Agency could not ensure that delivery organizations had adequate procedures to measure and report on program effectiveness.

Six organizations we reviewed utilized user surveys and/or monitored trends in injuries. These methods, while useful, were employed in isolation. User surveys do not adequately link training to its effects in the

workplace. Monitoring injury rates does not take into account other factors such as technological changes which affect health and safety performance in the workplace.

In 1991, a consultant's study of delivery organizations noted that individual delivery organizations had little evidence of their effects in the workplace. As a result, little information was available to justify emphasizing one program over another or to improve overall program effectiveness. The study recommended that the Agency establish a program evaluation mechanism which would be linked to funding decisions.

In response, in August 1994, the Agency established a Program Evaluation Advisory Committee with both Agency and delivery organization representation. The purposes of the Committee were to develop program evaluation standards, criteria and guidelines and to identify, prioritize, co-ordinate and guide program evaluations.

The Committee drafted a policy which set out criteria for prioritizing programs for evaluation. The draft policy outlined Agency responsibilities for co-ordinating and for overseeing program evaluation activities across the system and ensuring that the results of these studies were used for accountable program management. At the time of our audit, the draft program evaluation policy had not been approved by the Agency board.

The Committee also drafted a pilot evaluation plan for one of the Agency's training programs. The plan recommended an evaluation approach which involved a survey of workers divided into treatment and control groups, observations of participants' workplaces by ergonomists and analyses of data on injuries and productivity. The Agency had performed some preliminary work although the evaluation project had not been formally launched at the time of our audit.

Recommendation:

Formal accountability mechanisms should be established and a process for measuring and reporting the effectiveness of delivery organizations programs should be implemented. Organizations should be required to submit good quality information on measurable result expectations and achievements.

CERTIFICATION TRAINING PROGRAMS

In accordance with the *Occupational Health and Safety Act*, most workplaces with 20 or more regularly employed workers are required to have a joint health and safety committee made up of management and worker representatives. Committee members are required to meet regularly to discuss health and safety concerns, identify workplace hazards, investigate serious accidents and make recommendations to the employer.

The employer is responsible for ensuring that at least two committee members (one representing management and one representing labour) are certified. Under prescribed circumstances, certified members have the authority to jointly or unilaterally direct the employer to stop dangerous work.

Since its inception, the Agency had concentrated its attention on developing requirements for certification of joint health and safety committee members and establishing and administering the certification process. Under the Act, the Ministry of Labour is responsible for enforcing the certification requirements.

The Agency established a three-step certification process. A committee member is first required to complete a classroom-based core certification training program which provides information on occupational health and safety issues generic to most workplaces. The program may last from one to three weeks depending on the number of employees and potential hazards in the workplace.

The program was developed by the Agency and the training is conducted by the delivery organizations. Employers are responsible for program costs, which range from $535 to $995 per trainee, plus participants' wages and expenses during their attendance at the training. We estimated the total cost to employers, including program costs and trainees' wages, to have been approximately $83 million as of October 1995.

On completing the core training, participants are required to complete a workplace hazard analysis and prepare a health and safety plan for the Agency's evaluation. The participants are then certified on a temporary basis.

The final certification requirement is the completion of a sector-specific training program which addresses workplace hazards specific to the trainee's industry.

Due to the unique nature of the construction industry, certification training for construction workers is funded by a special Workers' Compensa-

tion Board (WCB) levy on employers in that sector. Between 1994 and 1995, WCB collected about $7.2 million on behalf of the Agency. As of October 1995, $4.2 million had been spent to provide core training and workplace hazard analysis reviews to 721 construction workers. The remaining funds were to be used for sector specific training for these workers.

Core Certification Training

Development of core certification training began in October 1991. The process experienced delays due to the inability of senior bipartite management to agree upon the issue of training program length. This issue had to be resolved through Ministry intervention, and the program was launched in April 1993. The following legislated compliance deadlines for certification were stipulated for all workplaces:

workplaces with 500 or more employees:	August 1, 1994
workplaces with 50 to 499 employees:	January 1, 1995
workplaces with 20 to 49 employees:	April 1, 1995

The Agency originally estimated that about 100,000 workers and managers required core certification training. This estimate was later revised to 60,000.

As of October 1995, 30,775 participants had completed the core training requirement. Of these, 22,654 had been certified. Compliance rates in some industries were particularly low:

restaurants & catering:	3%
hotels:	13%
car dealerships:	5%
grocery stores:	15%

The deadline for firms employing fewer than 500 workers in the tourism and hospitality sector, the retail and wholesale sector and the service sector was extended to January 1, 1996.

In some sectors, smaller workplaces need health and safety training the most, as the accident rate for companies with 20 to 49 employees was 45% higher than that of companies with over 500 employees. However, compliance with the certification training requirements among the smaller workplaces was very low. The compliance rates as of October 1995 for various workplace sizes were:

500 or more employees:	79%
50 - 499 employees:	55%
20 - 49 employees:	22%

The Agency attempted to address the concerns of small business employers by establishing a Small Business Advisory Committee with representation from employers, organized labour and the Agency. The Committee first met in July 1993. It was largely ineffective as contentious key issues such as duration and the costs of training were not open for discussion. The Committee had not met since February 1995.

In addition to considering compliance issues, we looked at the Agency's procedures to measure the effectiveness of the core certification training program.

In submissions to the Ministerial Review, the business community criticized the core training program as too lengthy, too generic and too costly. These views, particularly with respect to course duration and content, were also reflected by many of the delivery organizations we contacted.

The Agency commissioned an evaluation of core certification training in 1994. Based on a questionnaire survey of 680 trainees, researchers found that:

- about 85% of the trainees reported satisfaction with the program;
- 87% of the trainees from workplaces with 20 to 49 employees were satisfied with the program; and
- over 80% of trainees had high expectations that the knowledge gained from the program would result in real workplace changes.

These results indicated that the core certification training program was well received by the participants surveyed. However, the Agency had not adequately assessed what effect certification had on reducing injuries and accidents due to the brief history of the program. In addition, any impact on reductions in injuries and accidents could not be attributed solely to the certification program as health and safety services were also provided by the delivery organizations. To the extent possible, any overall program evaluation would have to be coordinated with these organizations.

The cost to employers of core certification training averaged approximately $2,700 per person. However, we could not assess the cost effectiveness of the certification program because of the above lack of program evaluation mechanisms.

Recommendation:
Ways to improve the compliance of smaller firms required to take core certification training should be investigated; and the effectiveness of the certification program should be evaluated in conjunction with other programs offered by the delivery organizations.

Sector-Specific Certification Training

Sector-specific training was to be developed using a bipartite process (that is, one with equal representation from management and labour) by 40 sector co-ordinators drawn by the Agency from delivery organizations and the business community to research hazards specific to various industries and to develop training modules.

The development of sector-specific certification training began in 1993 and was originally expected to be finished by October 1994. However, at the time of our audit in November 1995, it had not been completed.

The process has experienced serious delays due, to a certain extent, to the inability of the Agency's senior bipartite management to reach consensus on several key issues including duration of training, delivery methods and program pricing. As a result, the management vice-chair in June 1995 suspended further participation by the management sector co-ordinators in all but two sectors of the project. However, the Agency continued to pay salaries and out-of-pocket expenses for all sector co-ordinators. The average monthly project costs were about $300,000. As of September 1995, about $9 million had been spent on the development of this program.

Two other factors also contributed to the project's slow progress:

- the Agency did not have a work plan to maintain control over the progress and cost of the project. The Agency had had a plan prior to the commencement of program development, but it was not updated to address changing circumstances; and
- the reporting relationships for the management sector co-ordinators were not clearly established. While the intent was for them to be accountable to the Agency's management program director, they were not. Instead they were accountable to their respective employer groups.

As of October 1995, sector-specific certification training was ready for testing only in the construction sector. For the remaining 19 sectors, train-

ing modules had not been completed for implementation in 120 potential sub-sectors. These sub-sectors were in various stages of development.

Until sector-specific certification programs are available, temporary certification is being provided to joint health and safety committee members on completion of the core training and a workplace hazard analysis.

In November 1995, the Agency discontinued funding to this program except for the construction sector. The review panel previously referred to on page 11 is looking at this program and will make recommendations on its future direction.

EXPENDITURE MANAGEMENT

The original Memorandum of Understanding between the then Minister of Labour and the Agency permitted the Agency, as a Schedule III Agency of the government, the highest degree of administrative and operational autonomy. Subject to that interpretation, the Memorandum required the Agency to conduct its administration with due regard for the general principles of Management Board of Cabinet's Directives and Guidelines.

From the Agency's inception in 1990 to September, 1995, expenditures incurred for the acquisition of goods and services totalled approximately $22 million. Overall, the Agency did not plan adequately in acquiring goods and services. We identified instances where there were inadequate needs assessments or cost analyses and where competitive purchasing policies were not followed. For example:

- Management Consultant

  Since 1991, a consulting firm was engaged to perform seven studies with an approximate value of $1.25 million. Of these, requests for proposals were obtained for only two studies conducted in 1991 and 1992 and costing approximately $135,000.

  A series of studies began in 1993 without a written contract detailing the work to be performed or the cost. In 1994, a written contract was signed with the consulting firm which provided for $817,000 in fees with operating costs to be billed at cost. The contract provided a breakdown of work to be completed, including the approximate time this would require.

  We reviewed the consulting firm's billings for 1994 and 1995 and found that operating costs charged by the firm ranged from 25% to 39% of the invoice amount. In 1995, the Agency's staff recognized there might be a problem with the operating costs. An internal review was initiated which compared the consulting firm's rates to

those charged by four companies offering data entry, word processing and computer services:

Service	Consultant	Market
Word Processing	$40/hr	$28/hr
Edit-Code Data Entry	$30/hr	$16/hr
Clerical	$20/hr	$20/hr
Computer Time	$300/hr	$40/hr

For the period April 1993 to February 1995, operating costs billed by the firm totalled $194,000. Based on the above comparison, the Agency estimated the consultant had overbilled by $77,000. The Agency discussed the matter with the consulting firm, and the firm reduced the rate charged for computer time to $50 per hour effective April, 1995.

In our opinion, the amount of overbilling may have been higher because, according to the terms of the contract, operating costs were to be billed at cost.

Recommendation:

Operating costs paid to the consulting firm should be further investigated and, where possible, any overbillings recovered.

- Advertising Campaign

  In April 1995, the Agency's Board of Directors approved the implementation of an advertising campaign aimed at increasing the awareness of workplace health and safety among young people. Three advertising agencies were requested to submit a creative strategy proposal and the successful agency was selected based on a set of established criteria. That advertising agency was originally given a budget of $320,000 for production and media advertisement. This amount was later revised to $500,000 as the advertising agency was asked to expand the campaign's scope to target a larger audience. On June 12, 1995, the campaign began with the launch of radio advertisements, the largest component, which were to run for three weeks. This was extended to ten weeks and approximately $900,000 (or $400,000 in excess of the budget) was spent on this, the first phase of the campaign.

In early August 1995, the Agency commenced a second phase of the campaign to include both television and radio advertising. The budget for this phase was to be $1.1 million. The campaign was cancelled shortly after dissolution of the Agency's board of directors on August 23, 1995. In total, approximately $500,000 was spent on this second phase of the campaign.

Schedule III agencies must adhere to any management and administrative directives approved by the Management Board that are specifically designated as applying to such agencies. In the case of advertising and creative communications services, Management Board of Cabinet Directives, specifically designated as applying to Schedule III agencies, stipulate that contracts exceeding $500,000 must be acquired and managed through the Advertising Review Board and use a competitive selection process.

We noted that the Agency did not acquire its advertising and creative communications services through the Advertising Review Board, although the cost of the campaign totalled $1.4 million.

Additionally, at the time of the campaign in June 1995, Management Board of Cabinet had in effect a freeze on the purchase and placement of all advertising. We noted that the Agency had not followed this instruction.

- Communications Consultant

  Between 1993 and 1995 the Agency engaged a consultant to review its strategic planning process and communications strategy and to advise on how to set up a marketing department. The consultant was paid approximately $55,000 for this work.

  The Agency board of directors' minutes dated April 7, 1993 questioned the process for engaging this consultant. The minutes noted that the review had been initiated without a request for proposal and need, which was a violation of Agency practice and procedure. Nevertheless the consultant was subsequently engaged to do further work.

  Additionally, the consultant was a senior government official up to November 1992.

  Although the Agency did not have its own conflict of interest guideline governing the situation, the applicable Management Board of Cabinet Directive states that caution must be exercised when contracting the services of any individual known to have been a public servant up to one year prior to the date of the agreement awarded. If such is the case, the Directive requires a competitive acquisition process and proper disclosure of the conflict of interest situation to ensure that a conflict of interest, perceived or otherwise, does not result.

- Warehouse

  In 1992, the Agency identified the need for a warehouse in which to store certification program and other course materials. An internal study identified three options:

  - to contract with an independent fulfilment house;
  - to become responsible for a warehouse operated by one of the delivery organizations; or
  - to establish an Agency warehouse.

  The study considered the advantages and disadvantages of each option but did not provide any cost estimates. Nevertheless, the study concluded that the second option should be followed, as the third option would be cost-prohibitive and should be considered only as a last resort. The first option was not addressed.

  Shortly after the study was completed in November 1992, a delivery organization offered to co-locate its warehouse facility with the Agency in order to reduce duplication and realize efficiencies in the warehousing operations. The offer was rejected by the Agency as not meeting its needs. In May 1993 after completing a search for a warehouse location, the Agency entered into a five-year lease at approximately $141,000 per year. The Agency thereby established a warehouse, an option considered cost prohibitive in the internal study.

- Printing Facility

  In April 1993, the Agency entered into a lease for a computer-controlled printing unit. The lease was for a period of seven years at a cost of approximately $109,000 per year plus meter charges.

  We could find no evidence that, prior to entering into the lease, the Agency had:

  - assessed whether the unit would meet its printing requirements or determine whether it was compatible with its existing computer systems;
  - compared the cost of internal printing to that of external printing; or
  - tested the printing unit to ensure it met expectations.

  Further, we were informed that the supplier was the only one considered, as no similar printing unit was on the market.

  Once the unit was installed in the warehouse, the Agency realized that the equipment could not satisfy all of its printing requirements. The unit was best suited for high speed, low volume printing. It could not produce bound reports greater than approximately 125 pages or print participant and instructor materials efficiently. As a result, some of the Agency's printing requirements had to be outsourced.

With respect to the outsourced printing, the Agency obtained quotes from several suppliers on various occasions. The majority of contracts were awarded to the same supplier. In this regard, it should be noted that, at the outset, the Agency provided this supplier with sufficient paper to print all the required course materials. The other printers requested to quote on subsequent contracts did not have machines that could use the paper in its current form.

To date, the Agency has spent approximately $2.2 million to operate the warehouse and the printing unit and $990,000 on outsourced printing. In addition, a minimum of $1.1 million in future lease payments will be required for these items.

Prior to making commitments of this magnitude, a more comprehensive analysis of warehouse and printing requirements and the related costs should have been conducted.

- Office Lease

In August 1994 the Agency, through the service of a commercial real estate group, renegotiated with its landlord an entire package of leases for a ten-year term. At the time of our audit, the Agency was occupying approximately 37,000 square feet of office space located on three floors at a cost of $750,000 per year.

We reviewed the process for renegotiating the lease to determine whether a needs analysis had been performed regarding the Agency's space requirements.

We could find no evidence of a needs analysis having been performed. To assess the Agency's space requirements, we compared the amount of space currently occupied by the Agency to guidelines followed by the Ontario Realty Corporation when acquiring office space on behalf of Ontario government ministries and agencies.

The Agency had approximately 80 office staff. This equates to about 400 square feet per person when special office space such as computer rooms, board rooms and restrooms was excluded. The Ontario Realty Corporation's per capita allowance is about 200 square feet when acquiring space for entities with more than 57 employees. Thus, the Agency's square footage was approximately double, or 16,000 square feet, above the guideline.

The leased premises included four board rooms, four meeting rooms, six kitchens and approximately 120 offices and work stations. We noted that about 20% of the total offices and work stations were vacant.

- Leasehold Improvements

From 1993 to 1995, the Agency had spent approximately $1.4 million on renovations to its offices. The bulk of the renovations were carried out through the services of a design firm and a contractor engaged by

the Agency. The firm and the contractor were paid approximately $100,000 and $1 million, respectively, for their services on various projects.

The design firm was originally selected based on a recommendation from the Agency's landlord. We could find no evidence of any of the projects with the firm being tendered. The contractor was engaged through the firm and its services were tendered on three occasions, totalling approximately $437,000. The price on one of the tendered contracts, awarded in 1993, increased by 40%, from $370,000 to $520,000 as a result of change orders. The increase was for additional work on the Agency's board room and reception area, for which detailed specifications had not been finalized at the time of the tender.

- Expense Claims

  The Agency's policy on business meetings states that when incurring expenses on behalf of the Agency, staff should minimize costs while maximizing benefits. Such expenses must support the attainment of Agency objectives.

  We noted that over the last three years approximately 680 claims for meals costing about $50,000 were claimed by senior management. These claims often did not include reasons why the meals should have been paid for by the Agency. We also noted:

  - cases where the average cost-per-person was approximately $80;
  - four cases where receipts were lost for restaurant meals, one of which was for approximately $760.

  In addition, we noted two situations where cheques issued to the Agency to cover personal expenses were not cashed.

HUMAN RESOURCES

Agency staff had increased in number from 13 in 1990 to approximately 80 in September, 1995. This growth was primarily due to the Agency's need for personnel in the areas of certification, policy and research.

Recruitment

The Agency had a practice of posting job vacancies internally to give employees an opportunity to apply for openings offering new or greater responsibilities. If there were no suitable internal candidates, candidates were recruited externally. In 1994, this practice was formalized and incorporated into the Agency's policy manual. The collective agreement signed in 1994 required the posting of job vacancies for bargaining employees.

To ensure that the process of recruiting is open, fair and objective, qualified candidates are to be interviewed by staff from both the user and human resources departments and evaluated against established criteria. All offers of employment must be approved by senior management. Since 1993, the Agency has hired approximately 70 permanent staff. Of these hirings we noted:

- about half of the openings were not posted internally or advertised externally. We were informed these vacancies were filled through referrals from staff and senior management, 14 of them without the involvement of the human resources department. There was no evidence of interviews or evaluations being completed; and
- three cases where applicants were interviewed by staff from both human resources and the user department, and a recommendation put forward. This recommendation was then overridden by senior management. The reasons for overriding the decisions were not documented.
- In six cases human resources staff informed us they were told to interview and hire only particular candidates.

With respect to temporary positions, we noted similar problems. In twenty cases, these temporary positions lead to permanent positions.

Pay Administration

Employees at the Agency belong to one of three groups: bargaining unit, non-bargaining or senior management.

Salaries for bargaining unit employees are determined by their collective agreement. Salaries for non-bargaining unit employees are determined with reference to their equivalent position under the collective agreement. Senior management's salaries are determined with reference to the Senior Management Compensation Plan for the Ontario Public Sector.

We concluded that salary ranges for the Agency's employees were within the ranges at the Ministry of Labour and the Workers' Compensation Board. However, as discussed under the section on the *Social Contract Act*, we had some concerns over pay increases. We also concluded that employee benefits were generally in line with those offered by the Ontario Public Sector, except for leased automobiles.

We noted that five members of the Agency's senior management were provided with the use of leased automobiles at Agency expense. In the Ontario Government, entitlement to automobiles is restricted to: individuals with the rank and status of a deputy minister; and those other senior officials designated by the Management Board of Cabinet as entitled to the

full time assignment and personal use of an executive automobile. None of the members of senior management had deputy minister status or had been designated by the Management Board of Cabinet as entitled to an automobile. These leases were cancelled by the interim executive director in August, 1995.

To the time of cancellation, the Agency had paid leasing costs of approximately $76,000, plus maintenance expenses.

Performance Management

Performance management is important for determining the quality of an employee's overall performance within an organization. It can be used to identify training requirements, to set performance expectations, and to provide a basis for determining salary increases and promotions.

Agency policy requires a review of the performance of new employees after they have completed six months of probationary service. There is no requirement for subsequent performance reviews.

Thus, the Agency does not have a mechanism for awarding salary increases based on merit or performance. Bargaining unit employees receive salary increases in accordance with the collective agreement. Non-bargaining employees receive annual increases in line with those received by bargaining employees. Employees also receive salary increases upon promotion.

Since 1993, we noted that 11 staff had received promotions. Salary increases ranged from 16% to 55%, or $7,000 to $33,000. Since there was no performance management system in place, the basis for these decisions was not documented.

During 1995, the Agency began investigating possible performance management systems. This project, however, has been put on hold due to the Agency's uncertain future.

Severance and Exit Benefits

According to Agency policy, all eligible employees who have completed one year of continuous permanent employment will receive a severance benefit equivalent to one week's salary for each full year of service. The minimum entitlement is two weeks.

In April 1995 the Agency established separate exit benefit and severance policies for its senior management employees. Eligible employees, includ-

ing those who voluntarily resign or take early, normal or post-normal retirement, are entitled to exit benefits at the rate of two weeks of salary for each year of service. In addition, when terminated for reasons other than just cause, these employees are entitled to a severance payment calculated at the rate of one month of salary for each completed year of service. A minimum of six months to a maximum of eighteen months will be paid under the severance policy.

On August 9, 1995, the Agency's executive committee, made up of the vice-chairs and assistant vice-chairs of management and labour and the chief administrative officer, directed that severance packages be prepared for the two assistant vice-chairs and the seven directors of the Agency. On August 15, 1995, these and twelve additional severance packages were prepared for non-bargaining employees at the middle management and administration levels.

These senior management employees were to receive between 12 and 18 months' salary in the event of termination. The non-bargaining employees were to receive between 18 and 26 weeks' salary. The severance agreements would have cost the Agency approximately $1.1 million in excess of the amounts allowed under the original policies. Severance agreements were rescinded by the Interim Executive Director for senior management and are in the process of being rescinded for non-bargaining employees on the grounds that the terms were inconsistent with Agency policies and unreasonable in light of the Agency's brief existence. At the time of our audit, no severance payments had been made to these individuals. If the Agency had followed the Ontario Public Sector severance policy, the senior management group would have been entitled to only the minimum six months.

On August 21, 1995 the Agency's union stated that the existing severance provisions did not provide adequate protection and requested that an improved severance plan be negotiated. A new severance agreement was signed with the union on August 22, 1995. The agreement provided for the following in the event of termination of bargaining unit employees:

less than 6 months of service:	12 weeks
from 6 to 12 months of service:	16 weeks
from 1 to 2 years of service:	20 weeks
more than 2 years of service:	25 weeks

The new severance package will cost the Agency approximately $1.2 million in excess of the amounts allowed under the previous agreement. The severance package for bargaining unit employees had not been rescinded.

The former management vice-chair indicated to us that in his opinion the agreements with the directors were not appropriate as they did not adequately reflect the differentials in length of service and the amounts are excessive. These agreements were issued by the chief administrative officer even though the packages had not been authorized by the joint vice-chairs.

He also indicated that he was not aware of the additional agreements issued to non-bargaining and bargaining unit employees.

Employment Contract

In March 1993, the Agency promoted one of its program directors to the position of acting chief administrative officer. We found no evidence of an open competition for this position. In June 1994 the position was made permanent. We could find no evidence of other candidates being considered. At this time, the Agency entered into an employment contract with the officer. Under this contract, the officer was entitled to 12 months gross salary, plus an additional 10% in respect of benefits in the event of termination for reasons other than cause. The above amount is after taxes and other deductions. The cost to the Agency for this package is $207,000. There was no documentation available as to why such an arrangement was necessary, nor details of any negotiations or how the amounts were determined. In August 1995, the agency terminated the employment of this officer. The severance package is currently being negotiated.

The Social Contract Act

Expenditure Reduction Targets

In July 1993, the *Social Contract Act* received Royal assent. The Act's purpose was to achieve expenditure savings at sectorial and local levels. The Agency was required to achieve expenditure reduction targets imposed by the Act; it had a detailed plan in place to ensure that targeted savings of $338,000 would be achieved by January 1996. The plan includes savings in the following areas:

- reduction in board of directors' per diems;
- elimination of paid overtime;
- six unpaid days off for all staff;
- savings resulting from office closures; and
- delays in hiring for open positions.

Targeted savings were achieved by August 1, 1995.

Savings for the first two years ($225,000) were properly remitted to the Workers' Compensation Board to reduce its unfunded liability in accordance with decisions of the Management Board of Cabinet. The balance of the social contract savings will be remitted to the WCB in January 1996.

Salary Increases under the Social Contract Act

Bargaining Unit Employees: At the effective date of the *Social Contract Act*, the Agency did not have a local agreement with the bargaining unit employees. Therefore, the Agency was subject to the fail-safe measures and was prohibited from granting salary increases. However, fail-safe measures could be removed if a collective agreement was reached by March 1, 1994.

On June 24, 1994 the Agency negotiated its first collective agreement. It provided for salary increases as follows: 2% on May 17, 1994; 2% on January 1, 1996; and 1% on October 1, 1996.

The increase on May 17, 1994 was permissible as the social contract allows the first collective agreement to set the rate of pay that will be in effect until March 31, 1996. However, the increase provided for on January 1, 1996 is in violation of the *Social Contract Act*. We brought this matter to the attention of the Agency, and it subsequently informed the union that the increase scheduled for January 1, 1996 would not be implemented until the *Social Contract Act* has expired. The 1% increase scheduled for October 1, 1996 is subsequent to the expiration of social contract legislation.

Non-Bargaining Unit Employees: The Agency has a local agreement covering non-bargaining unit employees. Therefore, as long as it meets its expenditure reduction targets, it is not precluded from granting salary increases.

We noted eight instances where bargaining and non-bargaining unit employees were reclassified to newly created positions. These re-classifications led to increases in salaries ranging from 1% to 16%, or $300 to $7,000. We could not find sufficient documentation to support these increases based on changes in corresponding job responsibilities. These re-classifications were made on an ad hoc basis without consideration of how they would affect the Agency as a whole.

Additionally, in July 1994, the Agency adopted the Senior Management Compensation Plan of the Ontario Public Sector. As part of this reclassification, the majority of senior management employees received salary increases in excess of 12% or $10,000. We noted the salaries had already

been within the reclassified range. The increases brought senior management salaries to the middle of the range. We question the reasons for these salary increases given current restraints.

AGENCY DATA SYSTEM PROJECT

The delivery organizations and the Agency require accurate, up-to-date information on trends and causes of injuries in order to identify firms needing assistance in occupational health and safety and to monitor the effectiveness of programs and services. Prior to the establishment of the Agency, certain information was available to delivery organizations from the Workers' Compensation Board (WCB) in the form of on-line access, diskettes and magnetic tapes. Many delivery organizations found this information outdated, inaccurate and not meeting all their needs.

In 1992, the Agency initiated a data system project to address the information needs of both the Agency and the delivery organizations. The Agency proposed to extract and summarize current and relevant information from WCB records. The system would enable delivery organizations to make databases information specific to their own operations, for example, by extracting company contacts and data on incidents in specific workplaces.

Project Development and Management

The Agency requested a proposal from a consultant for systems development. Based on this presentation, a contract was awarded without tender in March 1992. According to the contract, the consultant was to be paid a per diem rate to provide systems design and implementation. This contract contained no ceiling price, no holdback provision, no stages of completion and no system design specifications.

The consultant brought in contract programmers to assist him with his work. The consultant estimated the process would take approximately 18 months and be completed in time for the launch of the certification program. However, the scope was continually expanded by the consultant.

In May 1993, the Agency brought in management consultants, who concluded that the Data System Project was poorly planned and managed. They found the following significant weaknesses:

- control over project development was left to an outside consultant;
- the primary users of the system, the delivery organizations, had little control over the project's development;
- there were no budgetary controls over development costs; and

- there was no formal service agreement with the WCB regarding access to its database.

Subsequent to this review, the Agency appointed a project manager to establish control over the project, and the original consultant ceased to provide services to the Agency. In total, the original consultant was paid approximately $586,000 for his services. As well, budgetary controls have subsequently been put in place.

Installation of the system was scheduled to be completed at all delivery organizations by January 1994. At the time of our audit, in the fall of 1995, the Agency had spent over $1.6 million on the project without meeting the information needs of the larger users.

Project Effectiveness

We surveyed seven delivery organizations on their use of the Agency data system. The three largest organizations, which cover over 2.6 million workers and account for over 80% of total delivery organization funding, were not using the system for the following reasons:

- difficulties with system installation;
- refusal of staff to sign a WCB-required guarantee of confidentiality; or
- irrelevance of the information for their purposes.

The remaining four delivery organizations had had the system in place for about two years. These organizations used the data in conjunction with their WCB systems and reported various levels of satisfaction. All of them commented that the Agency information was out-of-date and therefore of limited usefulness. We noted that Agency data were about three to four months old. The Agency informed us that the age of the data was mainly due to short-staffing at the Agency during recent months and to problems with access to WCB data. The Agency has since hired additional staff and entered into a data access agreement with the WCB.

Recommendation:

When the Agency's operations are transferred to the WCB the information needs of the delivery organizations should be determined and the most efficient solutions for meeting those needs developed.

CONTROL SYSTEMS

We examined financial controls in the following areas:

- purchases, payables and payments;
- revenues, receivables and receipts;
- payroll;
- capital assets; and
- inventory.

Purchases, Payables and Payments

Approximately 16% of Agency expenditures related to items other than funding to delivery organizations and human resources.

Generally, controls over purchases, payables and payment cycle were functioning as planned. However, weaknesses were noted in the area of segregation of duties as follows:

- the individual responsible for preparing cheques also had access to the vendor master file; and
- signed cheques were returned to the individual responsible for preparing the cheques.

Recommendation:

These weaknesses need to be overcome when the Agency's operations are merged into the WCB.

Revenues, Receivables and Receipts

The majority of the Agency's revenue was from the Workers' Compensation Board. Approximately 10% of its revenue was generated from the sale of course material and from investment income.

Controls were intended to ensure that:

- all goods shipped were billed and processed accurately and completely; and
- all receipts were recorded and deposited.

Controls in this area were functioning as planned, except that weaknesses were noted in the area of segregation of duties as follows:

- the individual responsible for updating accounts receivable also had access to master files;
- the same individual prepared bank deposits, bank reconciliations and updated accounts receivable; and
- cheques were not restrictively endorsed by an individual independent of the accounts receivable function; there was no independent review of the bank deposit.

Recommendation:

These weaknesses need to be overcome when the Agency's operations are merged into the WCB.

Payroll

Controls in this area were intended to ensure that only authorized Agency employees were remunerated accurately, completely and only once per pay period. Controls in this area were functioning as planned.

Capital Assets

The Agency's fixed assets consisted primarily of computer equipment, furniture and fixtures. In 1994, the Agency implemented a policy on fixed assets which provided for the development of an asset database, an annual physical count and regular reconciliations of the database to the accounting records. We noted that the policy was being followed for computer equipment. Currently, the database for furniture and fixtures was incomplete. A full count, updating of the database and reconciliation was expected to occur by early 1996.

Inventory

Inventory included raw materials (paper, binders and printing supplies), work in progress and completed reference material (core certification binders). Prior to the implementation of a perpetual inventory system in May 1995, the controls surrounding the management of inventory were weak. Records supporting inventory were not updated properly. A physical count was performed once a year with significant book to physical adjustments. After implementation of the new inventory system, the records improved significantly, resulting in much smaller book to physical adjustments.

POTENTIAL SAVINGS

Throughout our report, we reviewed for any potential savings and where possible, quantified the amount. Our observations are summarized as follows:

Section	Potential Savings and Amount, If Applicable	Page Reference
Funding	Allocation of funds to delivery organizations based on needs.	14
Funding	Streamlining of administrative functions in the system.	15
Funding	Recover surpluses in the amount of $1.7 million	16
Certification	Pending the government's decision on the continuation of sector-specific training, better planning and control over progress and costs of the project should be put in place.	22
Expenditure Management	Investigate and where possible recover any overbillings by the Management consultant.	23
Expenditure Management	Investigate alternative uses for the warehouse and printing facilities.	26
Expenditure Management	Investigate options for sub-leasing office premises.	27
Human Resources	Although savings may exist in this area they are indeterminable due to the uncertainty surrounding the Agency's role and structure when merged into the WCB.	28

APPENDIX A

Five-Year Summary of Financial Activities
As at December 31

INCOME	1994	1993	1992	1991	1990
Funding received	60,881,762	60,218,035	60,138,984	52,585,790	793,616
Construction training	3,208,984	626,998	—	—	—
Investment income	1,641,228	2,211,759	2,594,389	3,278,488	—
Recoveries	5,476,475	1,631,462	221,280	314,052	—
Grants deferred	198,957	1,669,228	2,639,331	1,998,383	—
	71,407,406	66,357,482	65,593,984	58,176,713	793,616
EXPENDITURES					
Funding and grants	52,093,222	57,933,732	56,055,869	53,231,537	89,360
Staff	5,190,386	4,249,254	5,024,746	2,799,630	318,799
Premises	1,524,407	984,618	792,968	632,431	58,168
Office supplies and services	1,135,058	441,897	420,418	310,439	162,159
Advertising and promotion	1,237,791	234,432	321,854	224,880	—
Board of Directors	179,441	187,893	241,049	221,155	62,787
Consultants	920,390	644,056	253,625	403,625	102,343
Projects	3,194,437	685,072	207,980	631,902	—
Program — cost of sales	3,286,105	1,047,358	1,587,019	—	—
	68,761,237	66,408,312	64,905,528	58,455,599	793,616
Excess of Income Over Expenditures (Expenditures Over Income) Before Impact of Accounting Change on 1991 Income	2,646,169	(50,830)	688,456	(278,886)	0
ADJUSTMENTS					
Change in Accounting Policy	—	—	1,816,136	388,332	—
Excess of Income Over Expenditures (Expenditures Over Income) Restated to Reflect Change in Accounting Policy	2,646,169	(50,830)	2,504,592	109,446	0
OTHER FINANCIAL INFORMATION					
Capital Funding	1,125,638	1,789,364	31,016	414,210	706,384
Acquisition of Capital Assets	(976,808)	(2,426,895)	(32,631)	(414,210)	(753,794)
Net Program Development Costs Capitalized	469,241	3,818,338	1,816,136	388,332	—

Source: *Audited financial statements and Agency accounting records.*
Certain balances have been reclassified to conform with 1994 presentation.

CHANGES IN ACCOUNTING POLICIES

Two changes in accounting policy have been made since the inception of the Agency.

On January 1, 1993, the Agency adopted the policy of capitalizing the cost of developing training programs. Prior to the change in policy, training costs were expensed. This change was applied retroactively and is reflected in the Five Year Summary of Financial Activities (Appendix A).

On January 1, 1994, the Agency adopted the policy of netting funds received for capital assets against the related expenditures. Prior to the change in policy, funding for capital assets was deferred and amortized on the same basis the related capital asset was depreciated. This change had no impact on income and expenditures.

APPENDIX B

HISTORICAL FINANCIAL PRIORITIES OF THE AGENCY

As part of the scope of our engagement, we were asked to assess the historical financial priorities of the Agency and perform variance analysis between planned and actual expenditures.

Historically, the Agency's primary expenditures have been in the area of funding occupational health and safety delivery organizations and human resources. On average, funding and human resources have accounted for approximately 85.7% and 6.3%, respectively, of total Agency expenditures.

Budget and Actual Expenditures
For the year ended December 31

1994	Budget	Actual	$VAR	%VAR
EXPENDITURES				
Funding and grants	51,944,636	52,093,222	(148,586)	(0.29)
Staff	6,576,793	5,190,386	1,386,407	21.08
Premises	1,277,843	1,524,407	(246,564)	(19.30)
Office supplies and services	2,617,931	1,135,058	1,482,873	56.64
Advertising and promotion	2,756,244	1,237,791	1,518,453	55.09
Board of Directors	464,868	179,441	285,427	61.40
Consultants	1,197,890	920,390	277,500	23.17
Projects	657,000	3,194,437	(2,537,437)	(386.22)
Program — cost of sales	6,114,033	3,286,105	2,827,928	46.25
Total Expenditures	**73,607,238**	**68,761,237**	**4,846,001**	**6.58**

1993	Budget	Actual	$VAR	%VAR
EXPENDITURES				
Funding and grants	55,633,067	57,933,732	(2,300,665)	(4.14)
Staff	4,295,100	4,249,254	45,846	1.07
Premises	885,000	984,618	(99,618)	(11.26)
Office supplies and services	455,600	441,897	13,703	3.01
Advertising and promotion	767,100	234,432	532,668	69.44
Board of Directors	290,000	187,893	102,107	35.21
Consultants	682,500	644,056	38,444	5.63
Projects	1,150,700	685,072	465,628	40.46
Program — cost of sales	1,526,800	1,047,358	479,442	31.40
Total Expenditures	**65,685,867**	**66,408,312**	**(722,445)**	**(1.10)**

VARIANCE ANALYSIS

The 1992 budgetary information was not sufficient in detail nor quality to provide meaningful comparisons or analysis. We could find no evidence of any budgetary information previous to 1992. As a result, our analysis included budgetary/actual comparisons for years 1993 and 1994 only.

The original Memorandum of Understanding required the Agency to discuss with the Minister budget variances greater than 10% for any particular line item; therefore, we have used this percentage for our analysis.

FISCAL 1994

STAFF ($1,386,000, 21%)

Actual expenditures were below budget due to the Agency adopting the policy of capitalizing the costs of developing training programs. The decision to change accounting policy did not occur until the 1993 year end by which time the fiscal 1994 budget was already submitted. Without this change, $1.3 million in staffing costs related to the development of the core certification program would have been shown as actual expenditures in 1994.

PREMISES ($247,000, 19%)

Actual expenditures exceeded budget due primarily to the Agency assuming responsibility for the facilities of one of the delivery organizations as part of a merger plan. The balance of the variance is due to expenditures related to office renovations which were not included in the budgeted figures.

SUPPLIES AND SERVICES ($41,483,000, 57%)

Expenditures for supplies and services decreased as the level of activity originally budgeted for was not present due to a decrease in training material sales of approximately 27%. The remaining variance is due to over-budgeting.

ADVERTISING AND PROMOTIONS ($1,518,000, 55%)

Expenditures for advertising and promotions decreased as the Agency curtailed initiatives due to declining demand for certification training.

BOARD OF DIRECTORS ($285,000, 61%)

While there were fewer meeting in 1994, actual expenditures were below budget mainly due to over-budgeting.

CONSULTANTS ($278,000, 23%)

In 1994, the Agency initiated the development of the records inventory management system. This project did not reach the stage of development originally budgeted for. As a result, actual expenditures were below budget.

PROJECTS ($2,537,000, 386%)

Actual project expenditures exceeded budget due to a writedown of capitalized costs with regard to the sector specific certification training program, in order to bring it in line with the expected future revenue stream.

COST OF SALES ($2,828,000, 46%)

Actual expenditures were below budget mainly due to a drop in core training below the levels originally anticipated. As a result, the drawdown of these capitalized costs was not as large as was expected in order to keep them in line with actual revenue streams.

FISCAL 1993

PREMISES ($100,000, 11%)

Actual expenditures on premises exceeded budget mainly due to the leasing of warehouse facilities.

ADVERTISING ($533,000, 69%); PROJECTS ($466,000, 40%); COST OF SALES ($479,000, 31%)

Actual expenditures were below budget in these areas mainly because the Agency adopted the policy of capitalizing the costs of developing training programs in 1993. The decision to capitalize was made at the 1993 year end and, therefore, would not have been reflected in the budget figures developed in late 1992. Without the change in policy, these costs would have been shown as actual expenditures in 1993.

BOARD OF DIRECTORS ($102,000, 35%)

Actual expenditures were below budget mainly due to a reduction in the activity level of the board. In addition, there were fewer board meetings held during the year.

APPENDIX C

HISTORICAL ANALYSIS OF EMPLOYEE MOVEMENTS

	1991	1992	1993	1994	1995
New Hires (1)	28	13	36	9	6
Permanent (2)	0	1	5	9	6
Resignations	4	3	3	4	3
Retirements	0	0	1	1	0
Terminations	0	3	3	1	5
Avg. Emp./Yr.	21	33	52.5	75	83

(1) Defined as full-time employee not previously on payroll.

(2) Permanent indicates that an individual had been on payroll as a temporary employee prior to full-time sta

DATE	ISSUED TO

Ontario